UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Adjustment Administration
Alfred D. Stedman, Assistant Administrator
Director, Division of Information and Records

No. 15 February 10, 1934.

TO FARM JOURNAL EDITORS:

The following material has been prepared for your use.

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WHO PAYS?

Although it has been pretty clearly demonstrated that the producer has not paid the processing tax in the case of wheat and cotton, there is still lively debate in some quarters as to who pays the tax in the case of hogs.

Those who hold that the producer paid the processing tax on hogs, and who based their conclusion on the fact that hog prices dropped in November at the time of the imposition of the tax of 50 cents per hundred pounds, must find the problem very baffling now, for prices have been rising even after the tax was raised to $1.50 on February 1.

A review of some of the facts connected with the price behavior and the market since November does not support a conclusion that the producer pays the tax. Let's see what some of these facts are:

At the beginning of this period, on last November 1, an inventory of stocks on hand discloses a decidedly bearish price influence: Pork stocks on that date were 14% larger than on the same date the year before and 18% above the 5-year average. Lard stocks were 289% larger than the year before and 128% above the 5-year average. All this at a time when the hog market makes its usual seasonal dip to low levels in December. Certainly a prophecy of low prices for the next few months, especially if receipts and slaughter kept up.

Slaughter kept up, too. It was heavy. During last November and December slaughter totalled 9,031,000 head compared to 8,362,000 for the same two months the previous years. Then January came along with one of the heaviest slaughters in recent years, almost 7% more than during January a year ago. Another bearish influence.

Furthermore, the processing tax was increased to $1 per hundred pounds on December 1, with a promise of another step-up, to $1.50, on February 1.

In the face of all these price-depressing conditions one might

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"I believe farmers are being led by enemies of the entire program into misunderstanding the processing tax," says Chester C. Davis, Administrator of the Agricultural Adjustment Act. "It must not be forgotten that the tax simply is a part of the price temporarily withheld from the producer, and that it will be paid back to the farmer who cooperates with his neighbor in adjusting production, so that the sick condition of oversupply can be corrected and prices rise on a firm basis. Our chief concern on this score is to make certain that the full amount of the tax is not paid both by the farmer and the consumer; that funds collected as processing tax should be directed back to the farmer, and not diverted to channels of private profit."

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have expected hog prices to drop entirely out of sight.

The low price of the winter was reached on December 21 when the top Chicago price was $3.25. But even this was 15 cents above the low of the year before--which occurred on almost the same date, December 20--when the top Chicago price was $3.10.

Then beginning with the first week in January, 1934, when the average price of all hogs sold that week was $3.38 the price held its strength. The average for the first three weeks remained the same, rose two cents the fourth week and 30 cents the first week in February and more than 30 cents more the second week in February--in spite of the increase of the tax on February 1 to $1.50 per hundred pounds. The average price of hogs in Chicago on February 8 was $4.40.

It is interesting to note that the price increase during the first six weeks of the year is almost exactly the same as the price increase during the same period last year, in spite of the increase in processing tax and in spite of the heavier slaughter and heavier stocks. Prices have averaged just about 32 cents per hundred pounds more than the weekly averages for the same period last year, in spite of this year's tax.

This comparison for the first six weeks of the year shows that the hog producer was able to sell a 15% larger volume at a 10% higher price than a year ago.

These facts do not, of course, point out the man who pays the processing tax on hogs. No single group of facts can mark the spot. Too many factors of varying degrees of importance and relationship

enter in, such as the long-time benefit to hog producers through production control which acts as a rebate of any part of the processing tax that the producer may pay; the prevailing index of consumer purchasing power; seasonal trends; and many, many other influences. These facts do, however, make it apparent that a change in price that comes at the same time a processing tax is imposed is not necessarily caused by the tax. The rise immediately following the increase in tax on February 1 is a case in point.

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A POTATO WARNING

The 1933 potato crop was small. Prices were relatively high. This means a bigger potato crop in 1934, according to Louis H. Bean, economic advisor to the Adjustment Administration. And a big potato crop will cause serious marketing conditions, which will tend to diminish the amount of money that the potato growers will receive during the next two seasons.

Unless some potato acreage and marketing agreements are adopted we are headed for an excessively large potato crop this year, and we will dip right down into another downward price cycle, warns Mr. Bean.

We cannot expect industrial revival to take care of an increased potato production. Consumption is more or less stable, with a long-time downward trend. In addition to the stimulation of production of potatoes grown commercially, the high potato prices of 1933 will cause an increase in potatoes in home gardens. This, combined with the prevalent "live-at-home" tendency of farmers will decrease demand. Thus, an increased production of potatoes will be disastrous in its results.

Unless there is some adjustment or control of potato acreage there will be an acreage increase of between 2 and 5 percent this year, according to A. E. Mercker, marketing specialist, in the Department of Agriculture. A total of 3,000,000 acres with average yields would result in a crop that could be marketed at a fair price. The 1933 acreage was more than that by 200,000 acres but nature saved the situation with the smallest yield per acre since 1919, and hence a good price prevailed.

The fact that a high potato price for one year results in a lowered price later has been well proven in the past. In 1925 there was a short crop and prices rose to $1.80 per bushel at the farm. The result was expanded acreage for the next three years which culminated in the record crop of 1928, which brought the farmer the low farm price of 52 cents per bushel even in that period of relatively high prices. The 1929 acreage was reduced to less than 3,000,000 acres as a result and returns were better than for any crop since the one of 1926. Again the downward cycle set in, and as acreage expanded the farm returns diminished.

The farmers sold their 1932 crop for a total income from potatoes of only 136 million dollars, as against 433 million dollars which they received for the 1929 crop. The potato cycles are sharp and certain.

The evidence is definite. We are headed for another low, unless there is a suitable marketing agreement perfected. Looking toward improving the prospects for the potato grower the Agricultural Adjustment Administration is tentatively developing marketing agreements with shippers to bring about orderly marketing and to prevent the anticipated large crop from having its usual depressing effect on potato producers' incomes.

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WISCONSIN SUPPORTS DAIRY PROGRAM

Substantial endorsement of the dairy control program which Secretary Wallace outlined in his recent speech in Madison, Wisconsin, was voted by the Wisconsin Council of Agriculture which includes in its membership nine dairy marketing associations and federations, four general farm organizations, and five special crop and livestock units.

The Wisconsin Council of Agriculture submitted to officials of the Agricultural Adjustment Administration its own voluntary control program for dairy products on a butterfat basis, which is similar to the program outlined by Secretary Wallace. The Council further urged the Administration to call at an early date a series of regional conferences, as was done during the development of the other production control programs in the past, to complete the program of dairy adjustment.

Although the Wisconsin Council of Agriculture had originally insisted on preventing importation of all dairy products and competing foreign fats and oils, as well as absolute restriction of oleomargarine, before they would accept any production control program, the Council voted to omit these demands at this time. The Council felt it would be unwise to hold up a general dairy adjustment program with benefit payments until the foreign import and oleomargarine question was settled according to its demands.

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